GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2311
ANSWERED ON:14.03.2008
FINANCING BY NABARD
Francis George Shri K.

Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India (RBI) reduced its contribution to NABARD funds meant for re-financing long-term agricultural operations;

(b) if so, the reasons therefor;

(c) whether RBI had brought NABARD under the corporate tax net;

(d) if so, the reasons therefor and the amount NABARD pays as tax annually;

(e) whether NABARD has to borrow money from the market at higher interest rates as RBI has de-listed NABARD bonds as non-priority sector bonds; and

(f) if so, its impact on NABARD operations as to fund flow and interest applicable to Banks and borrowers?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a), (b), (e) & (f): Yes, Sir. Pursuant to the budget announcement 1992-93, a policy decision was taken by Reserve Bank of India (RBI) to transfer larger share of its profits to the Union Government. Accordingly, RBI discontinued the practice of appropriating large amounts from its profits to the two long-term funds maintained by National Bank for Agricultural and Rural Development (NABARD) and the National Industrial Credit (Long-Term Operations) Fund and National Housing Credit (Long-Term Operations) Fund maintained by RBI. Presently, the appropriations have been limited to a sum of Rs. 1 crore to each of these funds.

The constraints faced by NABARD due to closure of General Line of Credit (GLC) as well as other low cost borrowing instruments has been drawing the attention of the Government since long. With a view to provide NABARD's access to long-term resources at cost-effective rates, the Finance Act 2005 has provided a new financial instrument called the 'Zero-Coupon Bonds (ZCBs)'. In this context, NABARD has floated 'ten years zero coupon bonds'.

Besides, pursuant to Budget Announcement 2007-08, on 26th January, 2008 NABARD issued Rural Bonds amounting to Rs.5,000 crore. These Bonds are eligible for tax exemption under Section 80C of Income Tax Act, 1961. Budget Announcement 2008-09 stipulates creation of a fund of Rs.5,000 crore in NABARD to enhance its refinance operations to short term cooperative credit institutions.

(c) & (d): Tax exemption, generally, is granted to a new organisation to compensate for exposure to unascertained risk in their relatively new sphere of operations. In the case of NABARD, set up vide the NABARD Act, 1981, the benefit of tax exemption was granted to it for 20 years. Over time, the risk confronting NABARD came to be fully defined and, therefore, there was no economic rationale for granting any further tax exemption. Accordingly, the exemption was withdrawn from financial year 2001-02 (Assessment Year 2002-03).

NABARD has paid Rs.337.40 crore and Rs.349.00 crore of tax (after adjusting for refund) for the years 2005-06 and 2006-07 respectively.